

ASIA FASHION HOLDINGS LIMITED
(Company Registration No. 41195)
(Incorporated in Bermuda)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

Capitalised terms not otherwise defined herein shall have the meanings respectively ascribed to them in the Announcement (as defined below).

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcement (the “**Announcement**”) on 18 August 2017 on the response to queries from the Singapore Exchange Securities Trading Limited (“**SGX**”) in relation to, *inter alia*, the Company’s announcement on 13 June 2017 on the entry into an exclusive distribution agreement (the “**Distribution Agreement**”) by its wholly-owned subsidiary, Shanghai Daiyoulong New Materials Limited (上海戴优垒新材料有限公司) (“**SHDYL**”) with 烯美科技 (深圳) 有限公司 (“**Shenzhen Ximei**”), a Shenzhen manufacturer of nano-based health foods, in respect of a special branded product named “Jiajinyo” (the “**Product**”). In this regard, the Board would like to respond to the following additional queries (each, an “**SGX Query**”) raised by the SGX as follows:

SGX Query 1

The Company disclosed in its response to SGX Query 2(b) that “*the Company is confident that the health food distribution business recently started up by SHDYL is a sustainable business which can make positive contribution to the Company’s revenue, profit and cash flow*”.

Pursuant to Listing Rule 703(4) read together with Paragraph 25(c)(iii) of Appendix 7.1, please disclose the Company’s bases and assumptions in arriving at its view that the health food distribution business “*can make positive contribution to the Company’s revenue, profit and cash flow*”.

Company’s Response to SGX Query 1

The Company’s major bases and assumptions in arriving at its view that the health food distribution business “*can make positive contribution to the Company’s revenue, profit and cash flow*” are as follows:

- (1) The Company is not required to make any significant amount of upfront investments such as the acquisition of any existing business from third parties or any capital expenditure in the purchase of plant and equipment for research development or manufacturing in respect of this business. Hence, the Company’s cash outflow in relation to capital investment is minimal. Even if the business does not perform as optimally as planned, the Company would not incur any significant expenses in the form of upfront investment;
- (2) The Company is not required to pay any license fee or exclusive distribution fee for obtaining the exclusivity in the distribution sales of the specially branded “Jiajinyo” product. Even in the event that the Company cannot fulfil its purchase target of 600,000 units of the product with Shenzhen Ximei, the only consequence would be the termination of such exclusive product distribution right by Shenzhen Ximei. There is no penalty levied on the Company for not achieving such purchase target;
- (3) As disclosed in the Company’s announcement on its unaudited FY2017 full year financial results released on 29 August 2017, SHDYL has already generated approximately RMB838K in sales revenue from the “Jiajinyo” distribution business since its kick-off in mid-June 2017 with reasonably satisfactory gross margin contribution to the Group; and

- (4) Since the first delivery of the product made to the customers in mid-June 2017, SHDYL has not encountered any return of the product for claims of refund from any customer due to inferior quality or unsatisfactory usage problems and it has continuously received confirmed orders from its customers, both of which allow the management to have confident in the sustainability of this new business going forward.

SGX Query 2

We refer to the Company's response to SGX Query 4, which stated that "*Shenzhen Ximei engages in a wide range of products, the major ones of which include (1) fuel-efficient pills; (2) graphene LED chip; (3) graphene battery; (4) ApexLife; and (5) ApexOne*".

- a) Please provide the sales track record of the abovementioned drugs.
- b) How successful have these products been selling in the market and how long is their sales track record?

Company's Response to SGX Query 2(a)

Shenzhen Ximei considers the sales track record of the abovementioned drugs as highly confidential and proprietary information of Shenzhen Ximei. As SHDYL is not a direct customer or user of the abovementioned (drugs) products and "Jiajinyo" has no direct relationship with those other (drugs) products, Shenzhen Ximei has turned down our request for them to provide such information to the Company for public disclosure purposes.

The management respects and concurs with their commercial viewpoint and decision.

Company's Response to SGX Query 2(b)

Shenzhen Ximei has turned down such disclosure request from the Company for the same reasons as explained above.

SGX Query 3

We refer to the Company's response to SGX Query 6, which stated that "*SHDYL has received confirmed orders from customers for an annual total consumption amount of no less than 620,000 units of the Product at the date of this response*".

- a) Please provide the terms of payment for the abovementioned sale orders.
- b) Please identify the customers. What are their track records in selling products similar to "Jiajinyo"? Please provide details.
- c) What are the sizes of these businesses and their financial position and distributorship strength? How will they be able to pay for their purchases or sell all 620,000 units of "Jiajinyo"?
- d) What are the terms of the distributorship?
- e) What is the certainty that the customers will be able to repeat their orders after the first committed order?

Company's Response to SGX Query 3(a)

The customers have to pay a 100% deposit to SHDYL for SHDYL to accept their orders as confirmed.

Company's Response to SGX Query 3(b)

The customers are basically the end-users of the product. They do not purchase these products for resale purposes.

Company's Response to SGX Query 3(c)

The average annual order amount of the product from each individual customer ranges only from RMB150,000 to RMB200,00, which is not a significant amount to any ordinary customer. Since the customers have to pay the order value in full as a deposit, SHDYL has no issues or concerns with the financial position or the distributorship strength of the customers.

Company's Response to SGX Query 3(d)

As explained in the Company's response to SGX Query 3(b) above, all the customers are end-users of the product and not distributors.

Company's Response to SGX Query 3(e)

There is no certainty that the customers will or must place repeated orders after their respective first orders have been fulfilled. However, the fact that SHDYL has not encountered any any return of the product for refund from any customer due to inferior quality or unsatisfactory usage problems since its first delivery of product to customers in mid-June has given more confidence to the management that there will be repeat orders.

SGX Query 4

We refer to the Company's response to SGX Query 7, which stated that *"Jiajinyo" is a specially branded product supplied exclusively to SHDYL which has not been previously sold by Shenzhen Ximei under the same Product branding and packaging*.

Company's Response to SGX Query 4

The Company confirms that "Jiajinyo" is a specially branded product supplied exclusively to SHDYL and which has not been previously sold by Shenzhen Ximei under the same Product branding and packaging.

SGX Query 5

- a) Given that "Jiajinyo" has no sales track record and will be marketed and sold as a health product, what type of certification or testing has been done/performed on the Product as quality assurance? Please provide details of the certification bodies and whether they are accredited by accreditation bodies.

Company's Response to SGX Query 5

Currently "Jiajinyo" is sold by SHDYL under the "general food" license. As such, no specific certification or testing of the product is required by the relevant drug and medicine authorities in the People's Republic of China.

SGX Query 6

The sales of a new health product without historical sales record may expose the Company to potential liabilities. Please disclose if the Company has undertaken any action to mitigate this risk, taking into consideration the potential sales amounting to the range of RMB 46.5 million to RMB 77.5 million (based on the confirmed annual orders of no less than 620,000 units of the Product and the indicative selling price of RMB 1,500 to RMB 2,500 for a pack of 20 units of the Product).

Company's Response to SGX Query 6

As far as our new distribution sales business in connection with SHDYL is concerned, Shenzhen Ximei has taken on legal liabilities on claims that may be made by the users of the product due to, *inter alia*, inferior quality of products received. This has been clearly stated in the exclusive distribution agreement signed by both parties.

By Order of the Board

Chong Tin Yam, Alex
Executive Director and Chief Executive Officer
4 September 2017